



## Pease Limitation on Itemized Deductions Fact Sheet

January 9, 2013

### Background

The Pease Limitation on Itemized Deductions, enacted in 1991 and named after the provision's author, former Rep. Donald Pease (D-Ohio), requires higher-income taxpayers to reduce the total amount of most itemized deductions, including any charitable deductions, by the lesser of (1) 3 percent of adjusted gross income (AGI) above a specified income threshold or (2) 80 percent of the filer's itemized deductions.

In 2001, the Economic Growth and Tax Relief Reconciliation Act called for a gradual reduction of the Pease Limitation resulting in full suspension in 2010, thus allowing all taxpayers to claim the full value of their itemized deductions that year. Under the 2001 tax act, the Pease Limitation was scheduled to return in full in 2011. However, at the close of 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act extended the 2001 tax cuts – thus postponing the return of the Pease Limitation for two years and scheduling the limitation to automatically return to its full 3 percent reduction level on January 1, 2013.

While the Pease Limitation did return as scheduled, the American Taxpayer Relief Act of 2012, which addressed the fiscal cliff tax issues, also increased the adjusted gross income threshold that triggers the Pease Limitation. For 2013, only those with adjusted gross incomes above the following thresholds are subject to the limitation: \$250,000 for individual filers, \$275,000 for heads of households, and \$300,000 for married couples filing jointly. According to Tax Policy Center estimates, without the legislation the 2013 income threshold would have been \$177,550 for all Pease-impacted taxpayers, regardless of filing status. By increasing the income threshold, the American Taxpayer Relief Act of 2012 actually reduces the number of taxpayers impacted by the Pease Limitation.

### Details About the 2103 Impact

In 2013, the Pease Limitation will require taxpayers with adjusted gross income above the previously noted thresholds to reduce their itemized deductions by the lesser of:

- 3 percent of the amount by which the taxpayer's income exceeds \$250,000 for individual filers, \$275,000 for heads of households, or \$300,000 for married couples filing jointly (these amounts are adjusted annually for inflation).
- 80 percent of the total value of the taxpayer's itemized deductions.

## Examples

- In 2013, a married couple filing jointly has \$500,000 in AGI and claims \$50,000 in itemized deductions. Under the American Taxpayer Relief Act, the threshold for the Pease Limitation is now \$300,000. Thus, the couple's itemized deductions would be reduced by 3 percent of the amount that their AGI exceeds \$300,000 (\$200,000). Under Pease, the couple's itemized deductions will be reduced by the lesser of \$6,000 (\$200,000 x 3 percent) or 80 percent of the itemized deductions (\$40,000). Since \$6,000 is less than \$40,000, the couple's itemized deductions will be reduced from \$50,000 to \$44,000.
- In 2013, a single filer has \$750,000 in AGI and claims \$300,000 in itemized deductions. Because the filer's AGI exceeds the American Tax Relief Act's threshold for single filers by \$500,000, the filer's itemized deductions would be reduced by the lesser of 3 percent of \$500,000 (\$15,000) or 80 percent of the itemized deductions (\$240,000). Since \$15,000 is less than \$240,000, the filer's itemized deduction would be reduced from \$300,000 to \$285,000.
- In 2013, a married couple filing jointly has an AGI of \$400,000 and claims \$2,500 in itemized deductions. Because the couple's AGI exceeds the American Tax Relief Act's threshold for married joint filers by \$100,000, the filer's itemized deductions would be reduced by the lesser of 3 percent of \$100,000 (\$3,000) or 80 percent of the itemized deductions (\$2,000). Since \$2,000 is less than \$3,000, the couple's itemized deductions would be reduced by 80 percent of their itemized deductions (\$2,000), from \$2,500 to \$500.

## Frequently Asked Questions

### **Q. Is the Pease Limitation new?**

A. No, the Pease Limitation was enacted in 1991 but phased out in 2010, 2011, and 2012. It was scheduled to return January 1, 2013.

### **Q. Is the Pease Limitation a cap on the charitable deduction?**

A. No. Although the Pease Limitation impacts itemized deductions, it is not a direct cap on itemized deductions.

### **Q. At what point does the Pease Limitation result in an 80 percent reduction in itemized deductions?**

A. While there are instances when the Pease Limitation can reduce itemized deductions by 80 percent, this usually occurs when itemizers seek to itemize a low percentage of their AGI.

### **Q. Will the income thresholds always remain \$250,000 for individual filers, \$275,000 for heads of households, and \$300,000 for married couples filing jointly?**

A. No. The income thresholds will be adjusted annually for inflation, which has varied over recent years but has historically remained under 4 percent.